

First among equals: The impact China's accession, to the WTO is going to have on the developing world.

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Declaration

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Abstract

This study explores the impact China's accession to the WTO and growing economic ascendancy in the multilateral trading system is going to have on the developing world. The central problem addressed is whether China's accession and growing stature is going to be a competitive threat to the developing world or will China emerge as a collaborator to the developing world and assist in redressing the inequalities of the system.

Three themes emerge and are dealt with in this study. The first addresses China as a developing nation itself and its overall position in relation to the rest of the developing world. Then China's growing economic progress and its internal developments are looked at. Finally China is evaluated as collaborator or competitor to the developing world.

A descriptive and analytical approach is employed in this study. The complexity and the interplay between the multiple levels of analysis emerge in this study. In order to best address the role China is to play, China has to be set in the greater multilateral context, the regional context and then evaluated in conjunction with the internal dynamics which are unfolding. These perspectives together are of the utmost importance in determining the future role China is to play in relation to the developing world. Whether it will emerge as a collaborator or a competitor to the already marginalised developing sector of the trading system.

The regional level of analysis is playing an increasingly important role in the current system as the regional units are proving more effective trading units than sole national units. Thus this study pays particular attention to the region in a case study focusing on South East Asia in relation to China.

The multilateral level of analysis addressing China's role in relation to the developing world and the answer to the question of whether China is going to be collaborator or competitor to the developing world is of particular importance in the current global context. The developing world is increasingly calling for the inequalities prevalent in the system to be addressed and China's position in the current context and in relation to this current issue will play an important role.

Despite the optimism surrounding China and its possible future the internal dynamics and context cannot be underestimated or neglected. The unfolding domestic developments that take place at the hands of the current leadership will play a deciding role in China's future. As China is in a transition and attempting a mix between a market-based economic system encapsulated in a socialist system it is a precarious situation that needs the careful attention of the leadership to best manage China's internal and external developments. The inclusion thus of China's internal dynamics, therefore cannot be neglected and have been included in this study.

Current trends regarding China emerge and it is possible to make assumptions on the basis of these trends as to what China's future role entails. This then is looked at as to the impact these trends are going to have on the various contexts that China finds itself in and most importantly the impact that it is likely to have on the developing world. The possibilities of different impacts being played out in different time frames emerge as the most likely to manifest themselves.

Opsomming

Hierdie studie ondersoek die impak wat China se aansluiting by die WHO, en sy groeiende ekonomiese mag in die multilaterale handelsisteem, op die ontwikkelende wêreld het. Die sentrale vraag wat hier aangespreek word, is of China se aansluiting by die WHO 'n bedreiging inhou vir ontwikkelende ekonomieë en of dié land, alternatiewelik, sy posisie kan gebruik om laasgenoemde ekonomieë by te staan in hul stryd teen die ongelykhede van die huidige sisteem.

Drie hooftemas is hier ter sprake. Die eerste handel oor China se status as ontwikkelende land, en sy algemene posisie *vis a vis* ander ontwikkelende lande. Die tweede, fokus op China se ekonomiese en interne ontwikkelings, terwyl die derde tema meer lig werp op die vraag of China beskou moet word as bondgenoot of mededinger van die ontwikkelende wêreld.

'n Deskriptiewe en analitiese benadering is vir die doeleindes van die studie aangewend. Die kompleksiteit en interaksie tussen verskillende vlakke van analise kom in die studie na vore. Om China se rol in konteks te plaas, is dit nodig om daarna te kyk vanuit 'n streeksperspektief en dit in verband te bring met interne ontwikkelinge binne dié land. Hierdie perspektiewe, tesame, is kardinaal vir 'n beter begrip van China se toekomstige rol met betrekking to ander ontwikkelende lande.

'n Streeksanalise raak toenemend belangrik in die lig van die feit dat regionale eenhede algaande meer effektief funksioneer as individuele nasionale state. In hierdie studie word daar veral lig gewerp op Suid-oos Asië, waarvan China deel uitmaak.

Op die multi-laterale vlak van analise is dit ook van belang om vas te stel hoe China sal optree teenoor ontwikkelende lande na sy toetredede tot die WHO. Die ontwikkelende wêreld pleit vir die regstel van strukturele ongelykhede, en China kan moontlik hier 'n deurslaggewende rol speel.

Ten spyte van hoë verwagtinge aangaande China se toekomstige rol, kan die land se interne konteks en dinamika nie buite rekening gelaat word nie. Ontwikkelinge wat tans binne China plaasvind sal 'n definitiewe impak op die land se toekoms hê. China

se unieke mengsel van 'n markgerigte ekonomie, wat funksioneer binne 'n breër sosialistiese opset, sal deeglike beplanning rakende die landse binne en buitelandse sake van sy leiers verg. Om hierdie rede het die studie ook klem gelê op die interne politiek dinamiek van China.

Spesifieke tendense rakende China is besig om te ontwikkel, en dit raak algaande makliker om sekere afleidings aangaande die land se toekomstige rol binne die internasionale konteks te maak. Hierdie tendense is veral van belang wanneer daar gekyk word na China se toekomstige verhoudinge met die ontwikkelende wêreld. Dit wil dus voorkom asof uiteenlopende resultate hulself gedurende verskillende tydsgrepe sal manifesteer.

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List of Acronyms

APEC	Asian Pacific Economic Community
ASEAN	Association of South East Asian Nations
FDI	Foreign Direct Investment
FTA	Free Trade Area
IT	Information Technology
NIE	Newly Industrializing Economy
GDP	Gross Domestic Product
PRC	Peoples Republic of China
SADC	South African Development Community
SOE	State Owned Enterprise
US	United States
WTO	World Trade Organisation

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Chapter 1

Introduction

1.1 Background

China is the latest entrant into the World Trade Organization (WTO). After twenty years of gradually undertaking economic liberalization and working towards gaining accession into the World Trade Organization China has eventually achieved its goal and attained accession as a formal member. The membership of this institution is of importance as this institution is the body responsible for directing trading relationships in the multilateral trading system. Much consternation and trepidation has surrounded the accession of China to the World Trade Organization, as China's membership is projected to have a definitive impact on the trading system.

China has already been experiencing successful economic results with the introduction of market orientated practices into its economy but the issue is that China will be posing further competition by means of its membership to the WTO as this will both broaden and increase the depth of China's participation in the multilateral trading system. The added competition that China poses with accession will have implications for other participants in the multilateral trading environment.

China has gone out of its way to align itself, advocate its commitment to the developing world and identify itself as a member the developing world. The developing group of countries is the group upon which China's accession will have the most impact, as it is to this sector of the multilateral trading system that China will pose the most likely competitive threat. Both China and the other members of the developing world are contending for trade in similar sectors and for foreign capital.

The competitive threat China poses to the developing world is assessed and evaluated in this study. Trends in China's development are identified and are assessed in relation to the impact on the developing world. The implications of and means by which China aligns itself to the developing world emerges and how this acts to counter the competitive threat that China will naturally pose unfolds in the study.

1.2 Research Guideline

This study takes a detailed look at relations between China and the developing world in conjunction with the repercussions of China's accession to the WTO and growing emergence in economic stature. The aim is to address the questions of whether China will ultimately emerge as a competitor or a collaborator to the developing world.

In addressing this question this assignment has looked at the characteristics of the emerging Chinese economy and the cooperative links China has with the developing world. The South East Asian region is singled out for particular attention, as the impact China will have, will most directly impact on the regional context it is in.

As China is a relatively new entity to the trading system attention is paid to providing additional background to its specific policies, inherent characteristics, its strengths and weaknesses. The scope of the study thus includes information on China's political, economic and social characteristics.

In addressing this question different levels of analysis need to receive attention. The internal dynamics, the regional dynamics and the greater multilateral context need to be focused in on in order to gain a holistic perspective. China's relations with the developing world are included under a multilateral level of analysis.

The inevitability of competition in a trading system based on the ideological foundations of liberalism and the scope of opportunities that can be created by means of inter-regional relations are highlighted in this study. Regional arrangements such as a Free Trade Area (FTA) or special arrangements arrived at via bilateral cooperation are examples of the forms which may accentuate opportunities for collaboration and for achieving a greater good.

1.3 Methodology

This assignment was conducted using a descriptive and analytical approach. Aspects of China were described and assessed in relation to the developing world and to the greater multilateral trading context. Particularly the classification of China within the category of the developing country category was assessed. The composition of China's economy was evaluated in relation to the impact this would have on the developing world then in addition to this the role that China's relations would play strategically and economically in the greater context is investigated. Particular attention was paid to looking at the Chinese economy in relation to its greater regional economy.

A variety of sources of literature were used from publications and journals, the Internet as well as papers from seminars and conferences. Due to the contemporary nature of this topic and due to the lack of information on this particular topic the internet had to be relied upon a great deal to provide up to date information. Discretion however was used as to the sites used for references.

1.4 Chapter Outline

Chapter 2 looks at the classification of China as a developing country and the controversy that surrounds this classification. This chapter establishes where China has chosen to position itself as it formally enters the multilateral trading context by means of WTO accession. The importance and relevance of China establishing itself and identifying itself as member of the developing world is explored and is combined with a brief mapping of China's relations with the developing world.

Chapter 3 focuses in on China's growing economic stature. The chapter starts by looking at the domestic and internal economic composition of China and particular attention is paid to Foreign Direct Investment (FDI) into China. FDI is focused in on, as an economic variable as apprehension and competition surrounding this variable exists amongst the developing world members. Looking at the internal issues is vital, as the success within China itself will ultimately determine its greater standing in the global context.

From an internal perspective China's economy is placed in a greater economic context and China's accession to the WTO is focused on as this marks the formal entrance of China into the global economic context.

Chapter 4 looks at the issue of whether China will ultimately be a collaborator or a competitor to the developing countries. This is the crux of the argument. There are arguments for and against both sides but the likelihood of China playing out both roles in different time frames emerges as the most likely scenario.

Closer attention is paid to the South East Asian region, as it is this region, which will bear the immediate impact of China's further economic ascendancy and accession to the multilateral trading context. This region will be most directly impacted upon, as it is the regional context in which China finds itself. This region is in addition home to emerging economies, which will naturally be competition with China.

Finally the conclusion draws the information and accumulated arguments outlined and formulate some conclusions as to the impact that China is going to have on the developing countries and the trends that will play themselves out in the multiple contexts.

Chapter 2

China in the developing world

2.1 Introduction

This chapter introduces the key components to the central question, China and the developing world. China's classification as a developing nation has been controversial. Why it has been so and the importance of this classification is thus explored further in this chapter. It is vital that the role China has to play in relation to the rest of the developing world be assessed.

This chapter clarifies the developing world's position in the greater multilateral trading system and then thereafter focuses in and looks at the interaction between China and the developing world historically and to the present day. China's current initiatives, bilateral links and other memberships which work towards the promotion and strengthening of cooperation between itself and the developing world are mapped out to illustrate the links that exist for collaboration currently and in the future. Why these collaborative efforts and initiatives are important both to China and to the developing world emerge in this chapter.

2.2 China- developed or developing

China initiated its reforms from a command to a market economy some twenty years ago¹. Though China has achieved unprecedented levels of success, the economic transition that China is undertaking remains incomplete. The success that China has experienced is unevenly distributed across the country resulting in disparities between rural and urban, between coastal and the interior regions and then within actual communities. China thus has many different levels of development within its country. This characteristic is indicative of many developing nations who have vast discrepancies

¹ Deng Xiaoping initiated market orientated reforms in 1978 with the establishment of Special Economic Zones. Gittings(2000:2-3)

of development within their borders. South Africa is a prime example of these wide discrepancies in levels of development.

China has prioritized development and has placed particular emphasis on infrastructure recently. Despite this, it still does not as yet have the infrastructural and technological development of that of a developed nation. The only basis on which it can be classified alongside the developed world is by looking at the relatively recent success that China has experienced due to the introduction of measures of liberalization into the Chinese economy. This recent economic success though formidable must be seen in the context of arising from a very low base and in the context of being obvious results that would arise from reforming the market from a command economy. It does not signify that China has achieved the same level of development of that of a developed country. Economic growth figures alone are no indication of the level of development.

China remains an economy in a state of transition. The levels of development are not high enough overall and the internal discrepancies and dislocations in development resulting from the institution of market reforms leaves one to conclude that it can only but be classified as that of a developing nation.

Many have contested China's classification as a developing nation prior to its entry into the World Trade Organization (WTO)². China's classification as a developing country is contested on the basis of the recent economic success it has experienced and due to its emerging and potential strength. This classification prior to WTO entry was not an issue, as China was not formally participating in the multilateral trading system. Now with its recent accession this classification has become an important consideration, as it has been a key determinant of the terms under which China has gained accession.

² Issues and Studies, Vol.36 Num.1 and www.wto.org

The classification of being a developing country was of particular importance in light of the current stand off between the developing and the developed world within the WTO structure. China ultimately had to accept compromises and had to make concessions on the levels of tariffs and on the terms of accession. China had to secure the support of individual countries support in their bid for accession by means of brokering bilateral agreements. China determinedly retained the very important classification as a developing country though it conceded the normal leeway accorded to developing countries on accession. China has committed itself to reducing its tariffs to an average level of 10% by 2005. (Lardy,2001:7)

There were many motivations for providing resistance to China's accession on the basis of being in the developing country category. One being that the concessions accorded to developing countries would be beneficial to China and would empower China to pose a further competitive threat to the rest of the members in the system and due the classification assisting China in its continued economic ascendancy possibly to the position of the next economic superpower.

2.3 Importance of China as a developing country

The strategic importance of China's classification as a member of the developing world and membership as such within the WTO cannot be underestimated. The WTO, the institution responsible for regulating international trade, has been undergoing a crisis or an impasse between the developed and developing world. The developing world is calling for a more equitable role in the global trading system. These tensions came to a head at the Ministerial round of WTO negotiations in Seattle in 1999. In order for there to be progress with a new round of trade negotiations, the WTO needs the participation of the developing countries. Unless more attention is heeded to the developing world's interests it is unlikely that the developing world will want to take part in a further round of negotiations ensuring trade liberalisation.

China's accession as a member of the developing group is of great importance to the developing world as the developing group is gaining a powerful supporter and a possible leader. The developing world's predicament is that it is operating at a distinct disadvantage due to their inability to best make use of the benefits that globalization has to offer. Currently the developing countries make up 81% of the membership of the WTO and it is increasingly apparent that only through closer cooperation with each other can they slowly bring about change from within the system. China could provide necessary additional weight to developing world issue. (www.People'sDailyOnline.com.cn/china/19990914A128.html)

Outside the WTO China will be of little use to the developing world in the looming trade negotiations. The Minister of Foreign Trade and Economic Cooperation of the PRC recently stated that China's accession could be a catalyst for the establishment of a new international economic order and reiterated China's support of the new round of trade negotiations which are set to address developing countries concerns.

China has the potential to swing the impasse either way. In addition to the strategic implications for the developed and developing nations China's accession is also likely to lend legitimacy to the challenges being issued to the liberal foundations of the multilateral trading system as formal membership to the WTO signifies an acceptance of this form of organization as the mode economic organization in the system.

As this is the dominant dictum upon which the multilateral trading system runs, China or any other participant in the multilateral trading system has little choice but to adhere and to reform its economy in line with this dominant form of economic organization. China's accession commits it to further economic liberalization, serves to legitimize the theoretical foundation of the system and then as economic liberalism is based on the existence of competition, China commits itself to becoming a competitor.

China, as one of the increasingly prominent and influential trading nations should be a member of the multilateral institution, which is responsible for providing the rules and regulations for global trade. While China is signing up to the WTO and its rules and regulations it has however expressed criticism regarding the inequality prevalent in the global trading system along with other developing nations such as Brazil and India. Thus while buying into the system China also acknowledges the faults in the system and realises that it'll be more effective in instituting change from within.

It is likely that the many goals that China will pursue will be in line with those of many other developing nations as it itself is a developing nation and thus will have common ground and interests with other developing nations. Whether China will provide the cohesion that is lacking amongst the developing nations remains to be seen. It might be too occupied in merely contending with its own problems of integration and domestic reform. If China as a member of the developing country faction were able to unify the incongruent group of developing nations it will most definitely improve the bargaining position of developing countries within the WTO structure.

2.4 Links between China and the developing world

China has voiced its commitment to the developing world and to the establishment of a new economic order. This commitment may also be attributed to be within China's strategic interests. By means of disrupting the current status quo, China would create a void within which it could gain prominence and stature and could assume a powerful position in the trading system. Historically, China has always felt that it had a rightful position as one of the leading nations of the system. (www.economist.com/surveys/displayStory.cfm?story_id=299659)

In order for China to assume a powerful position in the multilateral system it would need support. The developing world which makes up a majority within the multilateral trading system would be a vast reserve of support from which to reap. Thus it must be considered whether China's alignment with the developing world might not merely be due to its disagreement with the inconsistencies of the system but might be based on furthering its strategic interests in the greater context. Many analysts have commented on China setting about to improve and foster relations with strategic partners, which could counter the dominant American influence. (<http://asia.cnn.com/2001/WORLD/asiapcf/east/11/01/willy.prc-eu/>)

Despite this China has aligned itself with the developing world throughout history and still to the current day. The links forged are strong and are substantiated by their foreign policy which promotes equality and mutual benefit. (www.moftec.gov.cn/moftec/official/html/about_moftec/basic_policies.html) China demonstrates its commitment to the developing world by its participation and membership of a number of initiatives whose aim it is to promote developing world interests. In addition to this China makes use of bilateral cooperation efforts to foster closer cooperation and furthering of developing worlds interests. China's commitment to the developing world is also in line with its socialist political form of organization.

China is involved in multilateral cooperation efforts such as it is a member of the G-77, a group of developing countries that has committed itself to the promotion of solidarity among developing nations. A further initiative of which China is supportive is South-South cooperation ³ is one of the latest initiatives to inspire solidarity and target common development among the developing world. (www.fmprc.gov.cn/eng/5840.html)

Bilaterally China has aligned itself with the likes of India to foster cooperation. The combined force of the two biggest and growing developing countries will definitely pose a considerable force in the multilateral system.

³www.fmprc.gov.cn

Regarding the African continent⁴ China has undertaken a number of initiatives to encourage this largely marginalised continent. In October 2000 a Ministerial Meeting was held in Beijing with the purpose of looking at the best way in which to promote China-Africa relations. (www.moftec.gov.cn/moftec_en/dsbgx/feizhou/nf_en.html) A Beijing Declaration was compiled to further political contacts and consultation. Some of the measures included giving preference to African products, working to increase foreign reserves, debt alleviation, sustainable development and the development of human capital. China is involved in over 600 development assistance projects in Africa and has extended interest-free loans and soft loans on a number of occasions. (Mabuende, 2000)

In particular China has developed strong ties with South Africa, the Southern African hegemon. Recently a Binational Commission between China and South Africa has been established with the purpose of encouraging trade. Agreements aimed at avoiding double taxation and shipping and agriculture have been brokered. The aim is to encourage investment. These efforts are paying off, as China has become South Africa's fastest growing strategic partner, making up 2.3% of South Africa's total trade in 2000. (www.businesstimes.co.za)

The stronger the cohesion amongst developing nations, the greater the likelihood of issues pertaining to them being effectively addressed. Fragmentation of purpose among the developing world is detrimental to their cause of redressing the existing imbalance in the global system and marginalisation of the developing world.

This line of thinking is taken up by Minister Alec Erwin's trade butterfly metaphor. This would involve the strengthening of trade relations between Southern Africa, Asia and Latin America. A Southern trade formation would be created which would in turn contribute towards the strengthening of southern market capabilities and enable them to play an increasing role in the global context. (Mills, 2000:17) As China and South Africa

⁴ The PRC government has made a number of statements regarding its particular alignment with the African continent. Consult www.fmprc.gov.cn for further detail of these foreign policy statements.

are strong within their respective regions they would naturally be instrumental in the fostering of such an initiative.

A drawback the developing world and in particular the African countries have, which makes it difficult to reap the opportunities the Chinese market holds is that these countries do not possess multinationals which would have the capacity to undertake trade of such scope. It is multinationals and not nation states that undertake trading. The developing worlds deficit in this respect is a great handicap. South Africa is one example of a developing country with does possess the multinationals that have the capacity to exploit the opportunities that are available. In the broader regional and continental context however the number of businesses with the capacity to make use of the opportunities that China offers are minimal. (www.chinabusinessreview.com/0001/pearson.html)

China's states its position as being: that common challenges are faced by developing countries and that cooperation concerning common development can be undertaken in response to economic globalization. (www.fmprc.gov.cn/eng/5840.html) China's position is that a common front will accord the developing countries greater weight in North-South dialogue and in effective participation in the global system. (<http://english.peopledaily.com.cn>)

As China itself is a developing nation it is hoped that China with accession will promote and add weight to some of the issues that impact on the developing world. China has undertaken to align itself with other dissenting voices who are at this point in time issuing a challenge to the current order, in order to bring about a more equitable distribution of the benefits that economic globalisation has to offer. (www.moftec.gov.cn/official/html/about.moftec/basicpolicies.html)

2.5 Conclusion

China's accession to the WTO marks China's formal entrance into the multilateral trading system. China has chosen to identify itself with the developing world and has insisted on itself being classified as a developing country despite objections. The significance and timing of China's accession as a developing country into the current context where the developing world is making a call for the inequalities in the system to be addressed cannot be missed.

Naturally much speculation surrounds the role that this contentious player is going to play in the system. China has gone out of its way to promote, demonstrate and encourage relations between itself and the developing countries. It has done this by undertaking the conclusion of bilateral agreements, by gaining membership and lending support to initiatives such as the G-77 and south-south cooperation. China's commitment to closer relations with developing countries has been unrelenting. China in its foreign policy unequivocally and repeatedly states that it is in support of the developing world's call to address the inequality that the current system is perpetuating.

The question is whether China is pursuing closer relations with the developing world in order to secure support in the multilateral trading system it is entering into. Does China need this support in order to promote its own strategic interests as an economic power in the system or is it undertaking these efforts on the basis of its convictions.

Chapter 3

China's growing economic stature

3.1 Introduction

Even though China only initiated liberalization twenty years ago China has established commercial ties in the international context and developed its domestic economy to the extent that it is projected to attain the status of the next economic superpower.

This chapter starts from a domestic perspective and works its way outward until it looks at the greater context that China's economy finds itself in. All the domestic factors and accession play a key role in determining China's present and future greater role.

One of the most important criteria looked at in an economy is foreign direct investment. This variable is a direct indicator of the confidence that is held in an economy and is thus looked at independently. China's foreign direct investment is thus also introduced in this chapter. FDI is controversial as this is one sphere in which China's competition is likely to be felt.

China's accession to the WTO is a major step for China's economic liberalization and is going to have a major impact on its domestic economy in addition to its greater economic position. Accession is important both to China and to other members of the multilateral trading system. It is thus important to look briefly at accession and the impact it is going to have.

3.2. Background to China's economic position

China initiated its market-orientated reforms liberalizing its economy twenty years ago under the guidance of Deng Xiaoping. This was a departure from the strict adherence to Maoist communism and from a command economy. Despite the market-orientated reforms initiated, China has not transformed itself into a market economy nor has it committed itself to a system based solely on market fundamentals. Instead its policy is at

present heading in the direction of modernizing the Chinese economy and towards the creation of what the Chinese government terms a socialist market economy. (http://www.pbs.org/newshour/bb/asia/july-dec97/china_10-30.html)

What a socialist market economy would mean is that China is undertaking to establish an economy with predominantly market characteristics set in the context of an otherwise socialist system. China is currently a transitional economy with many aspects of the economy being steeped in its past and in state control. (Kerr and Hobbs, 2001:6) China thus is undertaking a dual track approach attempting to create a liberal market economy within a socialist context with the state playing a very active role. It is normally assumed that the liberalization of the one sphere would in turn lead to the further liberalization of the other. While this has taken place to an extent, the political control of the Peoples Republic of China (PRC) remains firmly in place. The PRC is going to have to ensure that a delicate balance between economic liberalization is kept in place. At some point it seems inevitable that the state is going to have to redefine its role in order for the market economy to operate effectively. Socialism however is based on heavy state control. It stands to reason that the more the state relinquishes its involvement in the economy the more socialism will fall away.

Though this seems the most likely course of events to follow Asia has a history of heavy state involvement. This is cited as one of the key factors which contributed to the recent Asian financial crisis. China's government needs to heed the experience of its neighbours and needs to realize the dire consequences that could be brought to bear if they attempt to retain their encompassing control.

While the PRC is able to keep the economy on an upward trend it is unlikely that discontent will oust the party from its position. The general populace has been favorably impacted upon by the market reforms and living standards have improved. As long as the PRC continues to improve the living standards and are able to deliver favorable economic conditions their political survival is secure. If alternatively, the favorable economic trend turns there is bound to be increasing discontent and pressure, which will be taken out on the governing bodies. Hence there has been a reorientation away from the traditional emphasis on ideology in favor of the economic goals in China. (Prybyla, 2000:141)

It is however becoming increasingly difficult for the PRC government to maintain the economy at the high levels of growth that it has been achieving. If and when the economy starts to slow down, the PRC could experience some foreseeable difficulties. The favorable internal context of China is crucial to the eventual success that China will or will not achieve in the wider multilateral context.

China has undertaken a very pragmatic approach and has undertaken the reforms in a gradual manner still leaving much to be completed. It has followed the dictum of 'crossing the river while feeling for the stones' and has with this strategy achieved favorable results. China has made much progress in liberalising its economy and opening it up to the rest of the global system and to the forces of globalization. The reforms made, have meant that China has had to make concerted efforts to adjust its economy to the dominant trade norms and practices of the global system and to accommodate foreign investors. The transition is no mean feat and China is not anywhere near the completion of liberalising its economy and creating the institutional infrastructure which needs to accompany the creation of a market type economy.

3.3 China's domestic economy

The institution of reforms has resulted in China's economy achieving unprecedented growth rates averaging 8 percent annually. While these impressive growth rates might initially be attributed to the low base from which China started from their sustained high levels bears testimony to China's success. China has now attained the title of being the seventh largest trading nation in the world and has achieved one of the worlds largest trade surpluses and foreign reserves. (Hendricks, 2000:1)

Traditionally China's economic growth as in many other emerging markets has been export led. Economic growth is however being increasingly stimulated by capital, investments and in particular by greater organisational efficiency of the economy. Under a command economic system allocation of resources and factors were not always efficient. Reorganization of the economy is bound to bring in additional growth. Particularly the financial sector is one in which greater efficient organisation will be benefited from.

The economy has enlarged, increased its industrial base and has in particular increased its private sector involvement. In 2000 China's total foreign trade volume reached US\$474.3 billion. In comparison with other developing nations China measures up very favorably. The projection for 2001 is to increase China's volume of foreign trade by 8% to US\$510 billion. (Xiaoming, 2001:1) China is still delivering a remarkable performance, it is r going to be increasingly difficult however to maintain such high levels of performance.

China's growth figures and the potential 1.3 billion strong potential market have been a big incentive for foreign involvement into the Chinese market. Foreign involvement has however been limited as some sectors have remained closed to foreign capital, much to the frustration of foreign investors who are impatient to reap the benefits and opportunities that could accrue from some sectors in the Chinese market. The potential that the large Chinese market holds is the one key reason for interest in China's integration into the global system.

The economic transition from a command economy is having an obvious impact on the populace. The living standards have generally been improving due to the growth of the economy. It however is inevitable that discrepancies in wealth will appear and be accentuated by the pace of economic liberalization. There are inconsistencies in income distribution between regions, rural and urban areas and then within communities appearing. The discrepancy between rural and urban is the most apparent. This is problematic as two thirds of China's population still lives in the countryside. This has precipitated mass urbanization in order to take advantage of the favorable economic conditions in the urban areas. The flow of people into the urban areas is estimated at between 8 and 10 million a year.

(www.economist.com/surveys.shosurvey.cfm?issue=20000408)

This trend of mass urbanization must be looked at in context of the growing unemployment as workers are being laid off due to the rationalisation of the State Owned Enterprises (SOE) and due to more efficient allocation of resources. The combined forces of urbanization and rationalization of the economy means that approximately 18 million jobs need to be created. (www.economist.com/surveys.shosurvey.cfm?issue=20000408)

Another internal economic factor that China needs to address is it's institutional capacity. China's economy like many other Asian countries suffers from bad loans, bad financial management and inadequate bank regulation. All of these were symptoms of the Asian financial crisis. China urgently needs to address the economic fundamentals of its economy before it liberalises. Liberalisation must occur in conjunction with its institutional capacity. (Henley, Kirkpatrick and Wilde, 1998) China has in the past taken opening up its economy at a gradual pace. It now is undertaking to accelerate the pace of liberalization. This could be detrimental if the economies institutional capacity is not developed enough to deal with the liberalization. (www.fm.co.za/report/china/china.htm)

Less people are living in abject poverty, consumerism and confidence in the economy is developing to the extent that China is said to be in the grip of a consumer revolution. Along China's eastern seaboard the middle class alone comprises of 400 to 500 million who able to spend. (Saywell, 2001:13) The development of consumerism is vital to the development of the domestic market. Consumerism, however goes against all the previous ideals of communism in which China was steeped in until 1976. The emergence and maturation of consumer confidence is regarded by foreign investors as a phenomenal opportunity. China's sheer domestic market size is one of China's greatest attributes and greatest competitive advantages.

The developing consumerism in conjunction with public spending means that China's economy is developing favorably. Public spending is in particular being directed towards the development of infrastructure and human capital. (www.iie.com/catalog/wp/2000/00-4.htm) Its Universities now boast twice as many computer science graduates as India. In addition to this China is concentrating on the establishment of research facilities. These trends indicate that China has realized that knowledge is a vital factor of production in an economy in the current trading context.

China's internal situation remains precarious and the government needs to calculate every move. (www.iie.com/catalog/wp/2000/00-4.htm) The importance of the internal Chinese context is a key determinant of China's future success and the internal dynamics must thus never be underestimated. Only with the guidance of good leadership will China's internal dynamics remain stable.

3.4 Foreign Direct Investment (FDI)

The accelerated flow of capital is one of the key characteristics of globalisation. Foreign Direct Investment (FDI) is the one method in which the flow of capital is encouraged especially in developing countries and emerging markets such as China. Capital in this form can provide the necessary means with which to stimulate domestic activities, create jobs and reduce poverty. (Mabuende, 2000) For these reasons, governments invite and

entice foreign capital into their respective domestic economies. Foreign direct investment flows to developing countries have risen considerably and now account for almost 40 % of global FDI and reached US\$120 billion in 1997. (Henley, Kirkpatrick and Wilde, 1997:1)

Table.3.1 Foreign Direct Investment (billion US dollar, year-to-date)

	2000	2001
		Q1
Contracted FDI	62.66	15.99
	(50.8)	(44.3)
Utilized FDI	40.77	7.98
	(0.9)	(11.7)

*Figures in parenthesis are the year-on-year percentage changes, year-to-date

Source: China: Robust Trade and Investment Flows after WTO Entry, 2001: 2 www.tdctrade.com

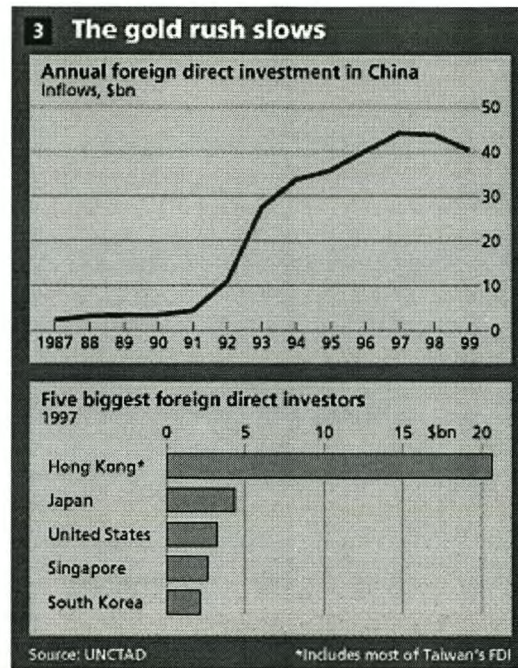
China is an attractive destination for investment as it not only provides the production base for exports but also promises a growing domestic consumer demand spurred on by urbanisation and a continuously growing economy. (<http://interactief.wsj.com/public/current/articles/SB100402560864955860.htm>) China is the recipient of considerable FDI flows.

There has been a remarkable increase in FDI to China with its impending accession to the WTO gaining momentum. For the end of 2000 FDI to China grew year on year 20.4%. (<http://www.tdctrade.com/econforum/dh/010901.htm>). Contractual FDI, which is a good indicator for the future, surged by 31.6%.

China's accession to the WTO will mean that it will be able to conduct trade within the established multilateral system. Belonging to the WTO and thus the multilateral system will mean that China's economic environment will be freed from the protectionism and diminish the uncertainty of the current rules and regulations (neibu) that are prevalent and have been a deterrent to investors. (Henley, Kirkpatrick and Wilde, 1997:5) It will move towards the implementation of compatible trading practices worldwide. This suggests that China's economy will become a more transparent and stable trading environment for

investors to operate in and thus will become a more visited destination for foreign direct investment. (MOFTEC, Shi Guangsheng, 2000)

Figure 3.1 FDI in China



Source: 'Wealth and Power', April 6 2000, www.economist.com

It is projected that FDI to China will double from US\$ 45 billion to US\$ 100 billion. It is projected that most of this investment will flow towards heavy and infrastructure industries and information technology, finance and service industries. Particularly those, which have been guarded from foreign competition.

(www.economist.com/surveys/displayStory.cfm?story_id=299659)

The main contributors of FDI have been from Asia. This being the case, the inflow of investment capital slowed as the region was caught up in the Asian crisis. FDI and exports were affected by the crisis, which has meant that GDP growth was also adversely affected. As these economies are making their recoveries the investment into China is however improving from these sources. According to the World Investment Report 2001 FDI flows to and from Asia reached record levels in 2000. Hong Kong in particular has

been doing very favourably in attracting FDI though this is often used as a gateway to China. China alone scored US\$ 64 billion in 2000. (Deputy Minister of Foreign Affairs, GCIS, 2000)

Foreign direct investment is difficult to determine as there are discrepancies as to the classification that inflows of investments from Taiwan and Hong Kong would fall under. Adherence to the One China policy would indicate that these donors would not be considered as foreign but internal. Thus foreign direct investment is difficult to determine.

Investment into China falls into two predominant categories. There is investment utilizing the advantage of cheap labour as an export platform and then there is investment made to target the Chinese market itself. (Henley, Kirkpatrick and Wilde, 1997:8)

Developing countries are in need of foreign capital as domestically often there is not enough capital available. Foreign capital is needed in order to undertake the development of the economies and in order to provide a stimulus to the economy to generate some growth. Foreign capital has many attributes and the best form in which to receive this capital is in the form of foreign direct investment. This has resulted in a situation where a number of emerging and developing economies are competing with one another for FDI. The respective governments thus often go about competing to create the most favorable environment to attract FDI to their economies. China has become the top foreign capital destination.

(www.peopledaily.com.cn/200111/02/eng20011102_83735.html) By 1998 was receiving 60% of all FDI going to developing countries. (Foreign Affairs Deputy Minister, CGIS, 2000)

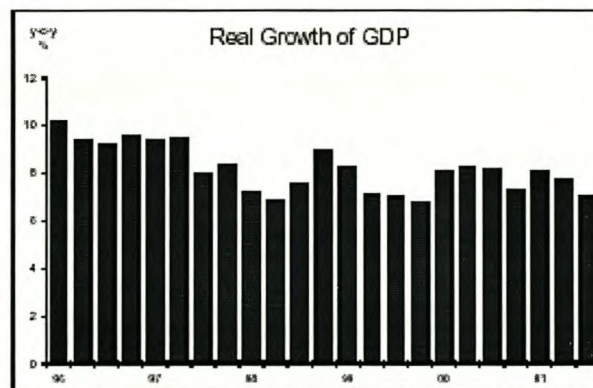
It is feared, particularly in the South East Asian region, that as China's economy gains momentum it will continue to attract FDI and will distract further FDI from emerging economies. While this is inevitable and is bound to have an impact in the short term in the long term China will be generating enough trade from which they can benefit from.

The key however is to position themselves so as to best take advantage of the opportunities that China's economy will offer. This may be achieved by the undertaking of closer links and cooperation with China. For the South East Asian region the best way in which to position itself may be the creation of a Free Trade Area (FTA).

3.5 International Position

In the contemporary global context today the power configuration and hierarchy is increasingly determined by the trade status and trade volumes of the respective nation states. The latest entrant after 15 years of negotiations is China. Much controversy surrounds the entry of this particular state, as it has been achieving as much success, from the periphery of the system. With its entrance into the World Trade Organization there exists much speculation as to where China will be assimilated into the existing order and hierarchy of the multilateral trading system and much concern is being harboured about the impact it's going to have with respect to competition.

Figure 3.2 China's Gross Domestic Product



Source: Standard Chartered Bank Group Economics Research, 2001:1

The US and Japan as the established leaders in the trading system have been looking at China's exponential growth and trade strength with apprehension. Chinese led imports have had a detrimental impact on Japan's domestic textile industry and are posing an imminent threat to Japan's electronic industry. In 2000 for the first time the trade deficit between the US and China exceeded that between the US and Japan. This reflects China's growing displacement of alternative sources of imports to the US.

Currently the global system is experiencing an economic slowdown. The slowdown has been aggravated by the attacks on the WTO Center towers in New York. As a result of these events China's exports have been contracting due to a slackening of external demand. Though exports are projected to grow between 5 and 8 % in 2001 they are down from 28% in 2000. As much of China's growth has been export led the contraction of exports is having a negative impact on China's GDP growth. The stimulus thus for continued GDP growth is going to have to be found elsewhere. (www.economist.com/surveys/showsurvey.cfm?issue=20000408)

Maintaining the domestic economic environment favorable is of the utmost importance to China's performance in the greater context. The PRC's political survival depends on the continuation of the favorable domestic economic environment. Again, the fields of economics and politics are inextricably interlinked.

China has now gained accession to the WTO the multilateral institution responsible for directing the greater trading environment. China has gained in economic prominence since the inception of its liberalization but only now on its full participation will the full benefits that can be accrued from trade liberalisation be realised. It is hoped that the full the greater implementation of liberalization will provide a further stimulus to the Chinese economy and to the greater stagnant trading environment.

3.6 China-WTO

The World Trade Organization is the multilateral body responsible for the promotion of trade liberalisation and is the body to which states may have recourse to in the case of trade disputes. The WTO is based on the precepts of classical liberalism and is in essence in charge of directing international trade. (Prybyla, 2000: 147) The WTO has gained in prominence, as with the combined impact of the forces of globalisation and liberalisation there has been an acceleration of pace and volume in trade.

The next major step on China's path to further economic liberalization has been China's accession to the multilateral trading body, the WTO. China has successfully negotiated entrance and now has to undertake the task of fulfilling the many commitments it has committed itself to.

After fifteen years of negotiations China's acceptance to the World Trade Organization has been achieved. China's accession, as in all decisions made in the WTO, has been arrived at by consensus. China thus had to concluding bilateral agreements with the US and the EU among others and had to arrive at agreements securing support for its accession.⁵

China's accession to the WTO is the last chink in the puzzle to integrating China into the global trading system. While it has experienced success by means of some reforms, China has instituted the success that it has achieved from the periphery of the global trading system. The benefits that will accrue with China's full participation will mean that efficiency is improved, controls and regulations scaled back, tariffs reduced from 24,6% to 9,4% and that the volume of transactions will increase. (*Financial Mail*, 2001: 18)

⁵ EU Ambassador address at Conference on "China's entry into the WTO", Laider, M.2000 and "China's Accession to the WTO" in China Perspectives January-February 2001

For WTO members, China's accession will mean that the opportunities China's market potential holds will be closer to realisation. China's accession will also mean that access to closely guarded sectors such as telecommunications⁶ and agriculture⁷ will be opened up to foreign involvement and imports. (www.chinaonline.com/issues/wto/NewsArchive/secure/1999/december/C9120107...)

The benefits of China's admission will undoubtedly exceed the initial success it has experienced and will bring about a more sustainable economy to sustain the 1.3 billion strong population. The World Bank projects that accession will mean that China's share of world trade will triple by 2005 and the Chinese government is estimating that accession will boost their GDP by 3-5%. (*Financial Mail*, 2001:18)

Prior to China's accession, China attracted a surge of FDI merely on the basis of the expected accession. Accession is being looked to stimulate an internal stimulus in order to maintain high levels of economic growth. Apart from an internal stimulus it is hoped that this large economy might provide a stimulus for the region and even for the stagnant global economy.

Currently a crisis or an impasse between the developed and developing world has been taking place within the actual structure of the WTO. The developing world is calling for a more equitable role in the global trading system and the tensions came to a head at the Ministerial round of WTO negotiations in Seattle in 1999. In order for there to be progress with a new round of negotiations furthering free trade the WTO is going to need the participation of the developing countries. Unless more attention is heeded to the developing world's interest it is unlikely that the developing world will want to take part in a further round of negotiations ensuring trade liberalisation.

⁶ Issues and Studies, September/October 2000, 138-140

⁷ Speech by Minister of Agriculture and Land Affairs, Adv. Du Toit at the Conference on China's entry into the WTO, Johannesburg.

China's accession will mean that China will have the opportunity to play a determining role in addressing this issue and will have a role in participating in the next global round of trade liberalization negotiations. The multilateral trading system and the institution, the WTO, which is responsible for directing the trading system can no longer operate without the inclusion of China. China's accession is bound to have repercussions at every level and is going to have an impact on the current issues between developing and developed nations.

3.6.1 Adjustments China will have to undertake

Despite these favorable consequences, many concessions and trade practices in line with the norms of international trade practices will have to be instituted in order for China to meet the requirements of accession. These are likely to incur costs and may bring about unpopular short-term results. Particularly unemployment precipitated by the further reform of State Owned Enterprises (SOE's) is going to be a problematic factor to contend with.⁸

The long list of terms to which China has to subscribe to entails specific safeguard mechanisms to prevent market disruptions for 12 years and specifically for textiles and clothing until 2008. China's Non-Market Economy application methodology also places strict restrictions on China, making it easily susceptible to anti-dumping charges. No other country has ever had such strict terms of accession as China has agreed to. These restrictions are likely to inhibit the export growth that would have been natural phenomenon after accession. (wwwtdctrade.com/econforum/dh/010901.htm) The restriction of China's exports thus in turn will inhibit the competitive threat China will pose.

Virtually every aspect of the economy will have to undertake some adjustments and restructuring. The legislature, the banking system and in particular the State Owned Enterprises are areas which are going to precipitate upheaval. Particularly the banking,

⁸ Issues and Studies, September/October 2000:128-129.

financial services and the legislature are going to require the creation of further infrastructural development in order to operate in line with global standards and operations. Financial services and banking are going to be able to adapt to a more competitive environment where commercial principles are adhered to and where the government plays less of a role. One set of adjustments that China is going to have to see to surrounds its exchange rate and its rigidity and convertibility.

At present 70% of urban workers are employed by the state. With restructuring, a percentage of these are likely to be at the brunt of labor cuts and closures. This in turn will mean negative repercussions on domestic consumerism creating a domino effect. (www.economist.com/surveys.displayStory.cfm?story_id+299659) China is facing the challenge of attempting to industrialise and globalise simultaneously.

The adjustments that will have to be brought about in the Chinese economy are difficult ones and involve major structural reorganisation. These are inevitably going to bring about massive social upheaval. A consolation is however that China's government will by accession have an outside authority, the WTO, to which some the responsibility can be attributed to. A further consolation is that many of the adjustments undertaken would have been necessary anyway to sustain modernization and high growth.

China's accession will mean only the start of further integration into the formal multilateral trading system. Only after accession will the real nuts and bolts of the process take place. The terms of China's accession have been very ambitious and surprise has been expressed as to the terms that China has agreed to. If China does not live up to the commitments and terms of its accession, the WTO will be facing a further threat to its legitimacy. (<http://ist-socrates.berkeley.edu/~briewww/forum/ber.../stokes.htm>)

3.7 Conclusion

The internal success or failure within the domestic Chinese context will have a resounding impact on the role that China will play in the global trading system. While great predictions are made for China's future, its internal economy remains an economy in transition. The Chinese government is now contending with further participation in the global trading system by means of accession to the WTO with many internal economic fundamentals being far from developed enough.

The role China will play and the position it will assume in the multilateral trading system will now be realised. While China's economy has the potential to ascend the ranks in the greater context it will depend on the steps that the leadership will take and the direction that the internal economy takes.

China has been eliciting support from the developing world and forging closer economic ties. Within the WTO structure this support may be of use to China as the developing world makes up a majority in the WTO membership. Whether the forging of closer relations with the developing world is for various strategic reasons or whether it is merely in adherence to China's socialist conscience remains to be seen. Accession will however mean that China will play a role in the next trade negotiations and in the current impasse between the developing and developed world.

Chapter 4

Competitor or Collaborator to the Developing World

4.1 Introduction

This chapter focuses on the impact China is going to have on the developing world. The impact can be divided into two possible directions or possible scenarios. Either the the China-developing world relationship will develop as one of collaboration or competition.

The competitive forces are an inevitable repercussion of the multilateral trading system. The fundamentals of free trade naturally create a competitive environment with the stronger more efficient contender reaping the benefits of increased trade. China by mere size, growing economic strength and a large pool of productive, cheap labour poses a formidable threat.

These competitive forces are then to be intensified by China's further involvement and participation in the multilateral trading system due to its having gained membership to the WTO. Apprehension exists as China will most surely be a strong contender in the system and others will be impacted upon.

Naturally the composition of China's exports and the sectors it is developing will determine to whom it is that China will be posing a threat. Thus it is important to look at the composition of China's exports as an indicator.

The collaborative forces are efforts undertaken by China in order to foster cooperative ties with fellow contenders. Whom China chooses to collaborate with will mean that the competitive impact that China will pose will be tempered down and China's collaborators are bound to in the long term gain benefits and receive benefits by being aligned with China.

4.2 Competition/Collaboration

China's emergence into the world trading context has brought with it both competitive and collaborative forces. Merely on the basis of its inherent characteristics, its size and its population it poses a competitive threat. China has however gone out of its way to establish and encourage collaborative and cooperative links in particular with the developing world. While it is inevitable that China will pose a competitive threat initially it stands to reason that the closer ties are with China the more countries will be able to make use of the opportunities the growing economy has to offer. Thus China does pose a competitive threat initially but if positioned correctly countries can gain some long- term benefits from the growing Chinese economy.

Apprehension in particular surrounds the competitive effect China's accession is going to have on the FDI flows. China's growing popularity in conjunction with the lowering of tariff barriers and standardization of trading practices accession means China will become increasingly more open to incoming investments and capital flows and will mean FDI will most likely be diverted from other emergent developing economies. It is feared that with accession, investor confidence will be stimulated, as the Chinese trading environment will have the stamp of approval from the WTO. (Hendricks, 2000:3) China already receives 70% of FDI to the South East Asian region and approximately 60% of FDI going to all developing countries. (Saywell, 2001:12)

The consolation is that the Chinese market will also be open to developing countries to make the most of the opportunities that the Chinese market holds. (Hendricks, 2000:2) Another factor in the developing world's favor is that China is responsible for the highest outward FDI flow amounting to US\$63 billion.

A particularly threatening aspect of China lies in that it has a similar sectoral composition to that of other developing nations. Sectors and areas of trade in which the developed world has long moved out of. China will become the latest center of production. Alternative production centers in other developing countries may be adversely affected. All developing countries often have the advantage of cheap labour. China is competing with the rest of the developing world on this count and enjoys a considerable comparative advantage with a large population with productive and cheap labour. (www.pwcglobal.com/ext.../937DE2886742FD3E85256AD3006DC049?OpenDocument)

One of China's economic goals is to diversify its economy and focus more on upgrading the technical level of its exports. The more it achieves this goal the less competition it will mean for labour intensive goods producers. Increasingly China is not isolating its activities to solely that of labor intensive and production activities but is aiming to establish itself as a competitor in the high-end technology sector. The Chinese government has actively prioritised the diversification of its economy. Thus while China will be posing a threat to other production locations it will also be posing an increasingly bigger competitive threat to industrialised countries such as Japan and Singapore.

Table 4.1 Composition of exports

	1997	1998	1999	2000 Est.
Key export markets ¹				
Primary products	13.1	11.2	10.2	9.7
Manufactures	86.9	88.8	89.8	90.3
Textiles and apparel	23.6	22	21.2	20.3
Electrical (e.g. appliances, TVs)	13.4	14.7	16.9	18
Other (e.g. toys, machinery, footwear)	49.8	52.1	51.7	52

Source: UN Secretary-General's Millennium Summit Report, 2000

There have also been indications that newly industrialising economies including South Africa will experience slight improvements in real GDP as a result of China's accession due to them supplying China with the inputs for production. South Africa alone stands to gain roughly US\$ 400 million in welfare gains over the next two decades. Global welfare is projected to be boosted by US\$ 6000 million by 2005 as a result of China's tariff reduction. (Speech by Minister of Agriculture and Land Affairs)

Table 4.2 Welfare Changes Due to China's Accession

Countries/Regions	Income in 1995 Billion US\$	Income Change in Baseline w/o WTO, 1995-2005 Billion US\$	Income Change due to WTO Billion US\$	Income Change Due to WTO As a share in base 2005 income (%)
China	714	577	28.6	2.2
Developed Countries	22141	5240	19.7	0.1
North America	7976	2561	9.5	0.1
Western Europe	8650	1828	7.1	0.1
Japan	5095	724	2.9	0.1
Australia & New Zealand	420	127	0.2	0
Developing Countries	5465	1935	7.8	0.1
East Asia	1448	582	12.5	0.6
Taiwan, China	281	177	5.2	1.1
Other NIEs	624	238	7.8	0.9
Indonesia	200	50	-0.2	-0.1
Other Southeast Asia	343	118	-0.4	-0.1
South Asia	441	249	-4	-0.6
India	331	188	-3.2	-0.6
Other South Asia	109	61	-0.8	-0.5
Latin America	1360	406	0.06	0
Brazil	701	191	0.03	0
Other Latin America	660	215	0.1	0
Middle East & N. Africa	848	278	-0.4	0
Sub-Saharan Africa	320	110	0.1	0
Eastern Europe and FSU	792	179	-0.2	0
Rest of the World	256	132	-0.3	-0.1
Total	28320	7752	56.1	0.2

Source: World Bank, 2001:27

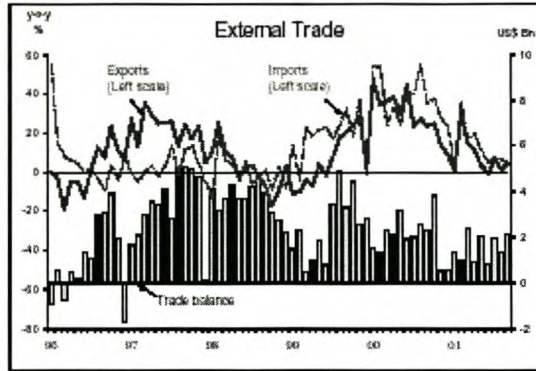
Apart from the formal terms of accession China also concluded 22 different bilateral agreements to ensure accession. These include strict terms and imposed many restrictions on China in order to ensure that China's accession would not impact too heavily on the respective domestic economies. Particularly the agreement concluded with the US is said to have been particularly unfavourable to China. This could however be based on the fact that it has been opposed to China's accession and has conducted a congressional evaluation every year to determine whether or not to extend Most Favored Nation Status (MFN) to China. The bilateral combined with the formal terms of accession are bound to constrain China a great deal and achieve its aim and ameliorate the competitive impact that China's accession will pose to other emerging markets. Conversely however the restrictions will inhibit China's ability to prioritize trade with the developing world.

In addition to the restrictive terms of accession agreed to China will have to adhere the foundational principle of Most Favored Nation Status (MFN) to its trade conduct. This will mean that China will have to accord the same benefits and tariffs to all trading partners. This will naturally limit China somewhat in its prioritizing to open up its economy to the developing South.

Imports, however are going to have easier access to the Chinese market with the opening of the market. WTO accession will thus create a bigger more accessible market for the rest of the world. (GCIS, Deputy Foreign Affairs Minister, 2000) This trend will appear due to both the tariff, the reduction in non-tariffs and due to the overall transparency and opening up of the market.

Imports could rise so significantly that China might even run a trade deficit. After accession China's total imports are projected to increase by 21,3% and between 1999 and 2005. China is projected to import US \$1.5 trillion of goods moving it up to fifth largest importer in the world. It is projected that China's share in world trade will triple to 10% by 2005 with accession to the WTO. (www.pwcglobal.com/ext.../937DE2886742FD3E85256AD3006DC049?openDocument) This indicates the opportunities that will be made available due to WTO accession.

Figure 4.1 Imports/Exports



Source: Standard Chartered Bank Group Economics Research, 2001:1

4.3 Impact China's accession will have on a selected region

4.3.1 South East Asian Region

The region that countries find themselves in is increasingly important in the multilateral system of today due to the growing interdependence within regions and due to regions themselves increasingly operating as trading units in their own right. Though China in itself is a large market and is the fastest growing economy in the world, the interdependent nature of the trading context will mean that China's interaction and cooperation with its regional context will be necessary. (www.chinabusinessreview.com/9703/lim.html)

Strong regional trade flows have been developed and promoted in the region according to the 'flying geese' model of industrialization⁹. (Henley, Kirkpatrick and Wilde, 1997:7) The region holds some strong contenders. Regionally six of the world's largest export and import economies are to be found within the region. These economies account for 28% of world trade, which is roughly the equivalent of that of the US.

⁹ Henley, Kirkpatrick and Wilde, 1998:8

China with further economic involvement is thus increasingly interacting with its regional context and thus with this model of industrialisation. Trade flows between China's economy and that of her neighbors have been developed and with accession the opportunity stands for trade flows to be intensified and for trade integration to be fostered. Of China's large import market over half of the US\$ 800 billion is accounted for by Asia. (www.peopledaily.com.cn/china/199990914A128.html)

There seems to be a diverse set of feelings surrounding China in the region and surrounding China's recent accession. China poses both challenges and benefits. There is the apprehension that China will become the leading destination of capital in the form of FDI, detracting from other emerging markets in the region. Already China is attracting two thirds of the foreign direct investment flowing into emerging Asian economies. Only 17% of investments went to ASEAN. (www.chinatopnews.com/BBS/Square/messages/989.html)

There is also the additional concern about China usurping the position of becoming the leading destination as a production location and that it'll intensify competition in export markets. Conversely there is the belief that China may draw trade to the region and thus be an asset to the region. Especially as Japan's economy is in trouble, it is likely that China is increasingly looked to as the biggest growth engine in Asia. (www.iie.com/catalog/wp/2000/00-4.htm)

Despite attempts to abate the fears and apprehension regarding China's recent accession there is no doubt that, as China comes into its own as a fully fledged trading nation in its own right that it is going to disrupt the South East Asian Region. As Singaporean minister, ' Goh Chok Tong was recently quoted saying," China's economy is potentially 10 times the size of Japan's".

The region has in the past experienced unprecedented growth and their economic success was hailed as the Asian miracle. Now sole China is achieving the magnitude of success

what the region experienced all on its own. (www.news.ft.com/ft/gx/cgi/ftc?pagename=View&cid=FT33CPKEJC&li...)

The one means by which the region could ward off the competitive threat of China would be for the development of an FTA to gain momentum between China and ASEAN. In addition to this China and its neighbors in the region need to work together to address restructuring and a redivision of labor in the region, in order to best benefit from China's accession. (www.iie.com/catalog/wp/2000/00-4.htm) As a regional unit with China as a member the region would be well equipped to deal with the volatility of global market forces and would offer much larger trade opportunities. (www.feer.com/articles/2001/0111_29/p024region.html)

China has been participating in a number of regional meetings. It is a member of APEC but also has been included in the meetings of ASEAN. Bilateral trade between ASEAN members and China has increased dramatically over the last decade. It seems the possibility of the establishment of an FTA with ASEAN is being given the highest priority. (www.peopledaily.com.cn/china/19990914A128.html) China wanting to establish a free trade zone should be seen as an attempt at reassuring the regional grouping of the fears stemming from China's accession. This is of importance to the region as economic, political and strategic interests are increasingly interlinked. (www.chinatopnews.com/BBS?Square/messages/989.html)

4.3.1.1. Impact on different sectors

Where there is an overlap of interests as in labor-intensive markets, competition is inevitable and the region is going to have to develop a more efficient and rational industrial structure. China has a huge reserve of labour, which is both productive and cheap and poses a very real threat. Despite assurances it seems unavoidable that China's accession is likely to change the competitive outlook and industrial activities in the Asia Pacific region. (UNIDO, 2000) To developed nations labour-intensive sectors are not much of a threat as they have moved out of these sectors and have mostly moved

production facilities to low cost locations. (Deputy Minister of Foreign Affairs, GCIS, 2000)

China already has displaced the region's labor-intensive export market alongside Indonesia, Malaysia, the Philippines and Thailand in the apparel, footwear and household products. This however happened as industrialized economies were relinquishing these industries. (Finance and Development, June 2000, Vol.37, Num. 2) China's low-cost manufacturing labor is a key draw card for FDI into China.

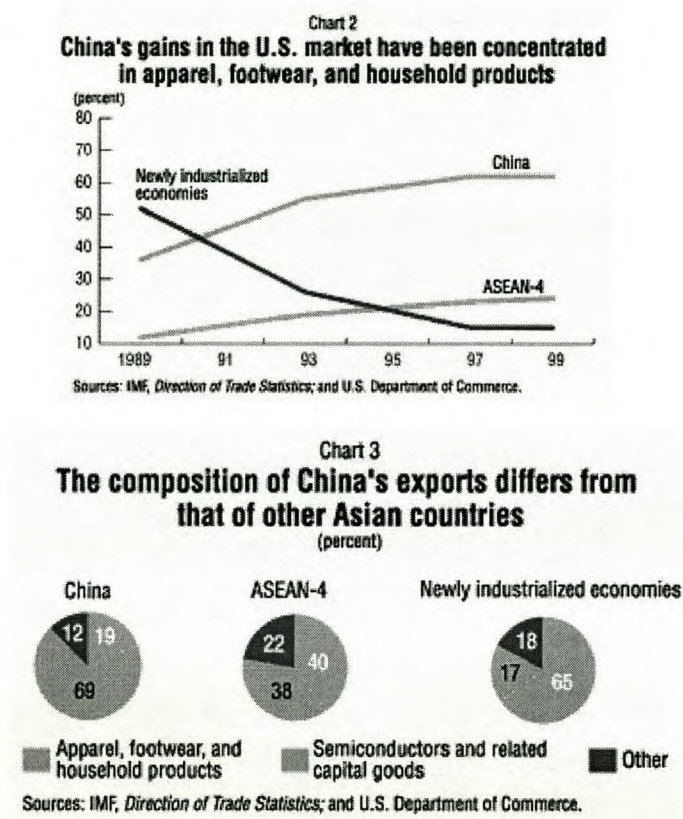
The East Asian Region depends on the Information Technology (IT) and the electronics sectors as their mainstay. These sectors make up a large portion of exports. These sectors, however have been in a rather precarious situation globally of late and have experienced a further decline over the last two months. (Standard Chartered Bank Group Economics Research, 2001:1) The South East Asian electronics industries in particular still remains dependent on the markets in developed economies. This does not bode well for the East Asian region.

China will provide a vital import market for the electronics industries in more industrialised countries where the electronics are of a more advanced standard. China's accession is adding an estimated 1.7% on Taiwan's 2000 GDP by 2005. (www.feer.com/articles/2001/0111_29/p024region.html) In the long-term, however, China is becoming increasingly operational and competitively so, in high-tech IT fields such as these. This indicates trouble for these sectors in the South East Asian Economies. Singapore is one such example whose economy hinges on electronics. A revival of this sector is not likely and the additional competition that China poses is placing an additional strain on the economy. (www.chinabusinessreview.com/9703/lim.html)

The other problem the region is facing is that it has developed an overcapacity in certain sectors such as automobiles, semi-conductors, steel and petrochemicals. The East Asian economies and China are specialized in very similar export bundles. This is problematic as, if one cuts prices it will have an adverse affect on the rest of the countries in the

region as they are in competition in the same region. (Finance and Development, June 2000, Vol.37, Num.2)

Figure 4.2 China and ASEAN Impacts on Markets



Source: Finance and Development, 2000, Vol 37, Num 2

The Flying Geese model of industrialization followed for the region would have dictated that China would fall into the latter part of the flying geese pattern. Instead of falling in with this pattern of industrialization China is able to diversify and has been targeting the diversification of its economy. This will mean that not only will it challenge competitors at the latter end of the flying geese model but that it will challenge the positions of the

likes of industrialized economies such as Japan and Singapore who are at the head of the formation. (Standard Chartered Bank Economics Research, 2001:2)

A reorganization of the region in conjunction with China is inevitable. In order for there to be a symbiotic relationship between China and the region different competitive advantages need to be developed so as to minimize the overlapping and to create multiple destinations for FDI within the region for different purposes. (www.feer.com/articles/2001/0111_29/p024region.html)

4.3.1.2 Regional dynamics

The region needs cooperation to deal with issues such as these in order to coordinate their activity so as to operate as effectively as possible. This should fall directly under the jurisdiction of the regional grouping in the region, ASEAN. (www.chinabusinessreview.com/9703/lim.html) If China's emerging strength is coordinated properly with the region it will improve the region's greater competitive standing within the multilateral trading system and will create a larger internal regional market. China would thus operate as an asset to its region more so than a fierce competitor. The closer cooperation and collaboration in the form of an FTA would thus contribute towards considerable gains being realised in the longer term.

A dilemma, which faces this region, is the slowing economic growth that the US market is experiencing and the recession that the greater system appears to be sinking into. This trend and the subsequent low consumer-spending rate are unlikely to revert back to its previous levels any time soon. This is having obvious impacts on the system as a whole and is expressing itself in a reduction in export markets. Many of the countries in this region are dependent on the flows of global trade to stimulate their domestic trade growth and with this dwindling it foreshadows difficulties for these markets. (www.feer.com/articles.2001/0111_29/p024region.html)

China's internal market is expanding and developing favorably and with the demand from the US decreasing, countries in South East Asia should look to China as a destination for its exports. China has a strong emerging middle class, which offers phenomenal market opportunities. On China's eastern seaboard already there exists an urban middle class of 400 million to 500 million. (www.feer.com) A reorientation needs to occur and this should be developed as a market which could replace the USA as South East Asia's top export destination. (Saywell, 2001) China thus would provide a valuable stimulus for trade in the region.

China will not be as affected by the economic slowdown that the system is facing, as its economy has been comparatively closed and as mentioned its internal market is growing at a good rate and is likely to continue to do so. (Standard Chartered Bank Economics Research, 2001:1)

The South East Asian Region was hit quite extensively by the Asian Crisis¹⁰ and is still recovering and rebuilding its financial strength. China emergence as the manufacturing destination will naturally be putting pressure on the economies and these economies will increasingly have to assess where it is their competitive strength lies or where their particular niche is in relation to the region. (Standard Bank Economics Research, 2001:4)

It must also be born in mind that with the progression of the development of the internal market there will in future be increasingly less reason for China to depend on foreign markets as the stimulus for its internal growth. The increased levels of FDI that should accrue to China with the lowering of barriers and with the increased transparency of the Chinese internal trading environment should assist in this shift.

(www.ChinaDaily.com/commentary_analysis/thiswk_comm/010716/c01071860)

¹⁰ Issues and Studies, September/October 2000:124-132

Though China does and is likely to continue attracting substantial flows of FDI. The fear that this will detract from the region is unlikely and rather the opposite is applicable. The strong FDI flows into China at present have been accompanied by strong flows into the rest of the region. The FDI flows have been complementary rather than competitive.

When China's FDI flows have raised the trend in the region has matched it.

www.feer.com/articles/2001/0111_29p024region.html

The region's economic situation in conjunction with China will also in part depend on the political situation in the region. Some precarious political factors exist which could detract from the economic potential of the region. This includes the China-Taiwan issue¹¹, the North-South Korea issue, rising crime and epidemic corruption. Issues such as these and in particular issues between governments will hinder regional cooperation and thus economic cooperation in the region.

www.chinabusinessreview.com/9703/lim.html

If greater economic integration is going to be undertaken the political issues are going to have to be addressed between China and ASEAN. Greater economic integration and cooperation, however, should operate to foster closer interdependence and communication, which will contribute to the resolution of conflicts. In addition closer economic cooperation in time would increase the opportunity costs of undertaking destabilising political and military action and thus would decrease the likelihood.

Many contentious territorial disputes regarding territory in the South China Sea and China remain. China, as yet, has been reluctant to broach these tensions however if it is serious in undertaking a FTA with ASEAN these issues are unavoidable. China's commitment to collaboration within the region will be determined by the degree to which it will go to, in order to work with the region to make the economic benefits of its liberalisation benefit them also. www.chinabusinessreview.com/9703/lim.html

¹¹ www.taiwansecurity.org

China's accession is a very important event for both China and the region. It will no doubt facilitate trade relations with regard to trade and development in the region and with the rest of the world. China's accession will however give weight to Asian agendas on the whole within the trade body and will thus be a strategic asset.

A current issue in which China's additional support might be of use, is the move by the US and European countries to bring labour and environmental standards under the WTO. This naturally would constrain some countries competitive advantages and has met with opposition from Asian nations. (www.cefc.com.hk/cgi-bin/restricted2_gb.gci)

A strategic interest that would motivate China to seek closer cooperation with its regional trade partners is that it opposes strong involvement of the US in the region and is opposed to the security alliance between the US and Japan. The closer China's ties to its regional counterparts the greater the opposition to this alliance.

Ultimately the conclusion to the impact that China's accession is going to have on this region is that it is going to pose an inevitable competitive threat in key industries in the short term and will bring about much reorganisation and restructuring. This is not going to be easy though it must be born in mind that some of the restructuring is in any case needed. In the long term China's growing economic strength may bring many advantages to the region depending on if the relationship is managed correctly. The establishment of a Free Trade Area between ASEAN and China would be beneficial to the region and would perhaps assist in working out some of the political tensions that exist.

4.4 Conclusion

The liberal trading context runs on competition. That China will be in competition with other members of the system is inevitable by the very nature of the system. Particularly the region, South East Asia is bound to be impacted due to its proximity to China and upon China's further participation in the system and it's growing economic strength. If, however, cooperative arrangements are negotiated such as the FTA with ASEAN then

this could position these economies to reap some benefits from China's growing ascendancy.

China does pose a short- term competitive threat despite the clauses and terms of accession and bilateral agreements made in order to protect other economies. If positioned correctly however economies gain from the opportunities that China's developing economy is bound to offer.

China has promoted ties in particular with countries in developing countries. This should assist them in forging closer ties and positions in which to best take advantage to the benefits that the ascendancy of China's economy will offer.

CHAPTER 5

Conclusion

This paper set out to address the impact that China's accession and growing economic ascendancy is going to have on the developing world. The question addressed is, whether China will emerge as more of a competitor or collaborator to the developing world.

Due to the very nature of the global trading system, which adheres to the dominant dictum of free trade it, is inevitable that China will be a competitor in the system. The system that China is formally gaining entrance to by means of WTO accession, runs on competition and competitive advantages. As China shares the characteristics of that of a developing country it falls naturally into the category of the developing world. On China's accession it is thus likely to be competing with the developing world as it shares similar competitive advantages in labour-intensive production.

That China poses a competitive threat to the developing world in the short term is inevitable. It has a wealth of cheap, productive labor at its disposal and is a very lucrative destination for FDI, attracting more that \$40 billion over the past 5 years.

The threat posed by China to developing countries could however be dealt with effectively by means of reorganisation and the promotion of closer cooperative ties. In the South East Asian region in particular this could contribute towards the establishment of a FTA. The closer the cooperation, the better the competitive threat of China will be dealt with and the more the opportunities that the growing Chinese economy holds can be benefited from.

China's entrance into the trading system has particular relevance to the regional context it finds itself in. The region holds members that will be directly impacted upon by the competition China poses. This competition posed will be intensified by the closer proximity to China. Cooperative efforts in the form of a FTA between ASEAN and China would be the best means by which to best counter the competitive threat that China inevitably poses. Stronger relations between China and its immediate region will mean that weaknesses and problems in the region will be addressed. The region and the implications China's emergence holds are dealt with in a case study in chapter 4 of this study.

Though assimilating China into the region is going to be disruptive and is inevitably going to bring about a reorganization in the region China could operate to stimulate economies in the region and act as an engine for growth. As other export markets, upon which many countries in the region are overly dependent on, get steeped in the current stagnation that the trading system is in, China could provide the alternative stimulus needed for growth.

The prioritisation of internal diversification that is being developed by China means that it will increasingly pose less of a threat to developing countries and will pose more of a threat to industrialised countries such as Japan and Singapore. This, however, will not have immediate effects and will mean that initially that China will pose a threat to the developing countries group in particular.

China has actively undertaken a number of efforts to align and commit itself to developing world and the issues that pertain to it with great consistency. In foreign policy statements China has indicated support for the developing countries instance on addressing equity in the multilateral trading system. China has brokered bilateral trade agreements which demonstrate its commitment to strengthen the trade capacity of the South and China has sought out membership to organizations that seek to address the inequality in the global trading system.

That China has identified itself with the developing countries in the multilateral trading system at such a crucial time is indicative of the commitment that China has towards the developing world for whatever reasons and motivations.

The commitment to cooperative agreements and collaborative efforts counter the competitive threat that China poses to a degree. Initially the competitive threat will inevitably be felt but in the longer term the collaborative efforts that China is undertaking with the developing world will establish it as a very valuable collaborator in the long term.

China's emerging status will make it a viable partner for the developing world. China will provide a valuable voice for initiatives such as south-south cooperation and will definitely strengthen the position or status of the developing world in their call to address the marginalisation and inequalities that they face.

The possibilities of China's success are phenomenal. It is reasonable to predict that after further assimilation China is likely assume the status of the next economic superpower. It must however be born in mind that this potential can only be realised if the internal dynamics within China are successfully undertaken. This point emerges strongly in chapter 3 of this paper. China is undertaking a delicate balance of attempting to create a market-orientated system within a socialist political context. The leadership's vision and leadership abilities are the necessary catalyst to China's success. Conversely the leadership's political survival depends on the achievement of China's economic success. The PRC leadership and China's fate are thus inextricably linked.

China internally is in a state of transition, the time in which China is entering into the greater context is also at a point where the multilateral trading system is in tumultuous state. The current status quo is being challenged. The issues between developing and developed countries are coming to a head just as China is entering into the multilateral system. The growing call for the status quo in the system to be disrupted, if heeded may

indeed create a vacuum and ideal conditions in which for China to assume the role as a key player and superpower.

The conclusion in chapter 4 arrived at is that while China will inevitably pose a short-term competitive threat, that if positioned correctly longer term benefits could be derived from China's growing economic ascendancy. That China has aligned itself with developing countries and their interests, should serve to enhance their ability to position themselves so as to best take advantage of the opportunities and potential that this emerging economy holds. The benefits that the Chinese economy holds could be of particular value in a stagnating greater economy and with the US export market diminishing. Thus while China will naturally be a competitor, China's cooperative efforts and agreements will in the long term establish it as a collaborator to the developing world.

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